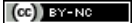


# “Actual problems of development of the banking sector in the economy of Kazakhstan”

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# ACTUAL PROBLEMS OF DEVELOPMENT OF THE BANKING SECTOR IN THE ECONOMY OF KAZAKHSTAN

## Abstract

The article deals with topical issues to develop the banking sector in Kazakhstan as their condition assessment, weaknesses, strengths, problems and basic ways of development of Kazakhstan's second-tier banks in the current environment, these issues are discussed in this article and determine the relevance of the material presented. The need to address the main problems in the development of the banking sector is due to the fact that it is represented as a fundamental element of the financial system. Moreover, under the modern conditions, it is subject to the impact of financial globalization, crisis phenomena in the world economy, the growth of uncertainty in the world financial market, which determines a number of negative consequences for the stable development of banking activities. Effective functioning of the banking system allows ensuring the sustainable economic development of any state, as the banking sector participates in the redistribution of funds and financing of the real sector of the country's economy. At the present stage of the development, the issues of dealing with the key problems of the development of the banking sector acquire special relevance on a global scale, since the financial crisis has revealed the shortcomings of the current system of banking regulation and supervision. In this regard, in the crisis conditions, the state intervention in regulation of banking activities has intensified, the role of risk management in commercial banks has increased, the requirements to the bank's capital, and the quality of assets has increased. Volatility and instability of the world financial markets require the search for new approaches in the implementation of banking activities to maintain sustainable development, increase margins in the banking business, which determines the relevance of this study. The main results of the research show the influence of external and internal factors that inhibit the development of banking activity.

## Keywords

economic environment, banking system, second-tier banks, analysis of changes in GDP, lending industry, devaluation, increase in debt, loans, foreign debt, banks' activities

**JEL Classification** E5, E58

## INTRODUCTION

The authors in this paper observe the assessment of the state, weaknesses, strengths, problems and primary ways for the development of Kazakhstan's second-tier banks in modern conditions.

The relevance of this research development is defined by the fact that banking system is specific in itself, which expresses the characteristics typical for itself, in contrast to other systems operating in a market economy and the transition to market relations, the implementation of the "Strategy 2050" (Poslanie Prezidenta Respubliki Kazakhstan - lidera nacji N.A. Nazarbaeva narodu Kazahstana strategiya "Kazakhstan-2050", 2012), as well as the right priorities of the banking system are important, solution of global issues of economy, entrepreneurship, social welfare.

The banking system is not isolated from the environment, on the contrary, it interplays closely with it, determines whether to establish a channel of continuous movement of temporarily free cash flow into the real economy, which ultimately leads to a path of sustainable development of national economy.

The purpose of this study is the analysis of the role of the banking sector in the economy of Kazakhstan.

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## 1. LITERATURE REVIEW

Analysis of recent research and publications shows the issues associated with the growth of non-performing loans in Kazakhstan, short-term funding of the real sector still existing. We consider a number of perspectives of the national and foreign economists regarding the problems of bank activity development in the modern conditions of economy development.

Professor Sadvokassova (2014) highlights the following main problems of the banking system in Kazakhstan, which need to be addressed:

- 1) preservation of credit risk of borrowers and high level of “non-performing” loans, as 66% of “non-performing” loans of banks were issued by the banks in the period until 2009, during the period of the greatest lending activity, and the possibility of restoring the value of these assets remains low;
- 2) decrease in the possibility of external funding with the scarcity of domestic resources, despite some growth in deposits;
- 3) structural weakness of the SME sector and the decline in its contribution to GDP growth becomes one of the factors that increase the concentration of credit risk in the loan portfolio of banks;
- 4) the main current trend in the banking sector is the reorientation of the credit policy of banks to a more profitable retail, primarily consumer, lending with a decrease in business activity of the corporate sector – the main borrower of banks;
- 5) a noticeable transfer of deposits from national to foreign currency, whereas demand for credit resources is presented mainly in national currency. Hence the uneven distribution of

currency risk, negative expectations about the exchange rate of the national currency, which create excessive pressure on the currency, and money market becomes clear.

All this has led to a significant change in the institutional concentration in the banking sector. Large domestic banks, despite financial support from the state and the restructuring of their obligations, remain encumbered by low-quality, non-accrual loans allocated to construction and the service sector and continue to yield the position not only to large banks with foreign participation, but also national medium and small banks. Since large banks with foreign participation have predominantly better quality loan portfolio and lower cost of funding base, which already allows them to compete in lending to industry and mortgage lending, and in the future may affect the increase in the share of such banks in other segments.

Professor N. Parusimova (2016) explores the problems of banking development on the example of Russia and suggests new approaches to its organization in modern conditions. In particular, it is proposed to create a system for refinancing this loan debt on problem loans if the borrower has lost his job if he has no other housing if his income falls for a number of reasons. As Parusimova notes, it is necessary to increase the share of modern banking products. At the present time, the introduction and development of new directions of banking business and the introduction of new banking products aimed at close interaction with the real sector of the economy, the growth of the market volume, the bank's income and the growth of the market value of the bank's capital are actualized. Thus, compensatory collateral lending, which occupies a leading position in the modern market, should be replaced by real, and in the future – probable advance. Instead of burdened lending, guarantees and sureties should be developed to reduce uncertainty.

An economist König (2017) notes that the latest financial crisis underscored the need to develop an effective structure for large EU banks at the international level to enhance financial stability.

Professor Gorton and Ph.D. candidate Chousakos Kyriakos (2017) note that the financial crisis significantly damages the state of the bank. Post-crisis regulatory changes are aimed at restoring banks, but they suggest that these measures may prove repressive.

Prospects for the development of electronic banking in India are revealed by the scientist Bhargava (2017) noting that the carrying out of demonetization has ensured the growth of non-cash transactions.

The impact of the asset and capital structure, risk management and good corporate governance on the financial performance and value of the bank through income and free cash flow participating in the Indonesian Stock Exchange are considered by Ukhriyawati, Ratnawati and Riyadi (2017).

ation processes, the funding shortfall, the increase of non-performing loans, external liabilities of many other economic and political factors. Qualitative indicators of the decline in the share of credit portfolio can be attributed to the weak diversification and unbalanced lending to the economy.

The banking sector of Kazakhstan aims at short investment payback period. Despite the limited access to external sources of funding and slow-down of the economic growth, banking sector proceeded to increase its resource base, and the rate of nominal growth of the resource base in 2010, 2014 and 2015, largely determined by the dynamics of the exchange rate.

Thus, the banking system is a combination of different types of national, state, commercial banks and credit institutions operating within the framework of the common monetary mechanism, i.e., “self-organizing”, since a change in the economic environment, the political situation will inevitably lead to “automatic” change in the bank’s policy. This is clearly indicated in Figure 1, the GDP to the change in loans and the banks’ role in the economy of the Republic of Kazakhstan.

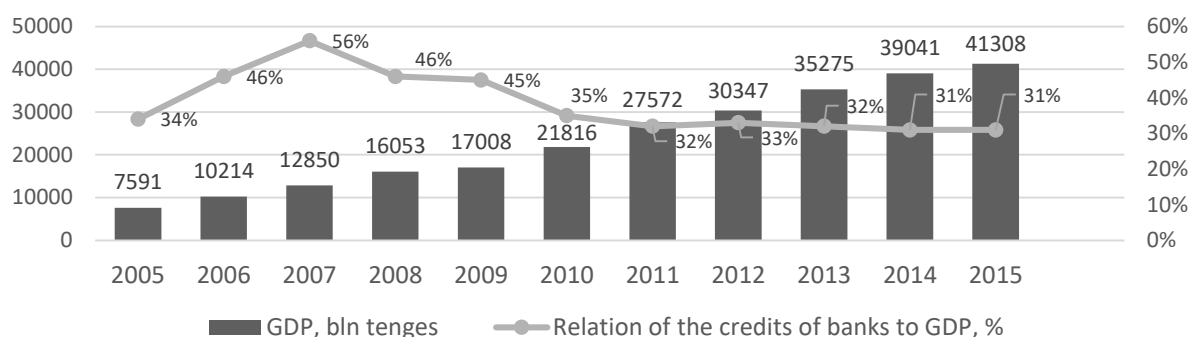
Currently the banking sector of the country, as can be seen from Figure 1, is the largest and dominant segment of the financial market.

Thus, in 2005, the share of loans in the real sector of the economy is 14%, the highest percentage is observed in 2007 – 19% and in 2015 – 10%.

## 2. EMPIRICAL RESULTS

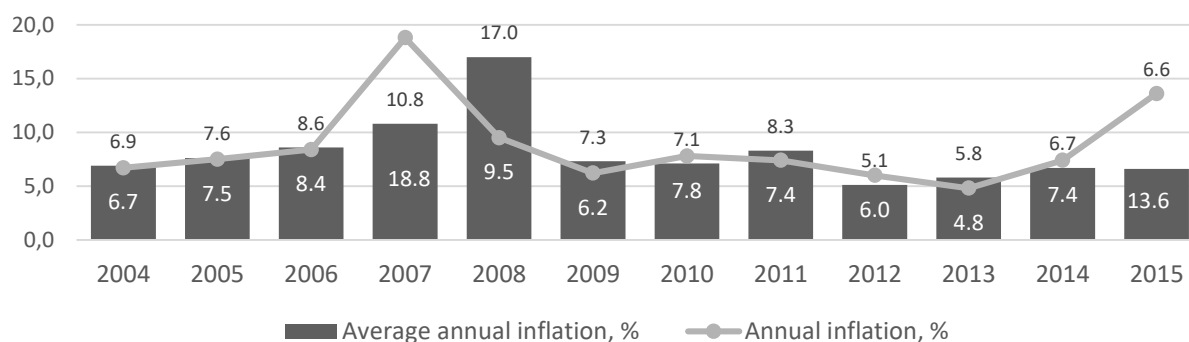
### 2.1. General analysis of the banking sector of Kazakhstan

Key findings demonstrate that the decline in the share of bank loans in the GDP of the Republic of Kazakhstan is associated with many external and internal factors, which include the devalu-



Note: compiled based on the source Analiticheskaya sluzhba Rejtingovogo Agentstva RFCA (2016).

**Figure 1.** Analysis of changes in GDP in bln KZT, the ratio of loans to GDP and loans in the real sector, % in 10-year period in the Republic of Kazakhstan



Note: compiled based on the source (Analiticheskaya sluzhba Rejtingovogo Agentstva RFCA, 2016).

**Figure 2.** Inflation assessment in 2004–2015

The ratio of bank loans to the country's GDP is, respectively, 34% in 2005, 56% in 2007 and 31% 2015, which proves that the share of bank loans in the GDP and the share of loans to the real sector of Kazakhstan by the end of 2015 is lower compared to the pre-crisis period indicators, i.e., in 2005.

An inflation had a large negative impact on the banking sector, which in 2015 amounted to 6.6%, that is characterized by high growth after 2008 with 17% inflation (see Figure 2).

Despite the negative factors that affected the rise in the level of average annual inflation in 2015 up to 13.6% (see Figure 2), including the weakening of the tenge, the fall in world oil prices, the currency weakening in the countries, the major trade partners of Kazakhstan, the current macroeconomic conditions resulted in a restrictive impact on inflation processes. Among them is the decline in business activity, the reduction in population income, consumer demand, and the volume of lending to the economy (Otchet Nacional'nogo Banka Respubliki Kazakhstan za 2015 god, 2016).

All this is due to many economic and political factors related to the crisis, the weak diversification of the socioeconomic processes, an imbalance of production credit, which led to the devaluation, the increase in outstanding loans, external debt and other negative consequences that have finally affected the results of bank activities.

## 2.2. The structure of the banking sector of the Republic of Kazakhstan

Second tier banks play an important role in the banking system of Kazakhstan. They directly perform almost all types of banking transactions with individuals and legal entities – receiving deposits on current accounts, short-term loans to industrial and commercial enterprises, performing payment transactions between them.

In modern conditions, commercial banks have increased the banking services – receiving time and savings deposits, medium and long-term loans, consumer loans (consumer credit), and other op-

**Table 1.** The structure of the banking sector of the Republic of Kazakhstan

Nº	The structure of the banking sector	January 1, 2015	January 1, 2016
1	The number of second-tier banks, incl.:	38	35
2	Banks with 100% shares of the government in authorized capital	1	1
3	Second-tier banks with foreign ownership	16	16
4	Subsidiary second-tier banks	14	13
5	The number of branches the second tier banks	395	346

Note: compiled based on the source Otchet Nacional'nogo Banka Respubliki Kazakhstan za 2015 god (2016).

**Table 2.** An analysis of the growth in the number of second-tier banks in Kazakhstan

Indicator	Years										Deviation within 2006–2015	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	+,-	%
The number of second-tier banks	204	184	130	101	85	67	55	48	44	35	-169	-19
The number of established banks	63	13	2	2	6		2	1	1	1	-62	-62
The number of bank branches	724	1042	1036	949	83	59	426	418	400	346	-354	-2
Total number of second-tier banks with its branches in Kazakhstan	928	1226	1166	1050	168	126	481	466	444	381	-547	-2.43

Note: compiled based on the source Otchet Nacional'nogo Banka Respubliki Kazakhstan za 2015 god (2016).

erations. We have studied the dynamics of the change in the number of the second-tier banks of the Republic of Kazakhstan in 2006–2015, the data are presented in Table 2.

Based on the quantitative characteristics of the second-tier banks development in Kazakhstan, it can be concluded that the number of banks has gradually reduced. Thus, in 2006, they accounted for 204 units, and their branches amounted for 724 units, whereas in 2015, second-tier banks amounted to 38 units, and their branches 370 units.

In general, the banks with their branches have been observed either to have been growing or drastically decreased in the number to 928 units in 2006. Later in 2010, their number has decreased dramatically and amounted to 168 units followed by the next reduction in 2015 to 408 units. In addition, it is worth noting that the number of second-tier banks with terminated license reached in 2006 – 14 units, and in 2015, they amounted to 3 units, which are shown in Table 3.

The second-tier banking system is undergoing permanent structural changes. It is affected by the global, macroeconomic factors, i.e., crisis phenomena, as well as the micro-environment of each region, the population, the development of the whole economy of the country.

### 2.3. STB grouping

Assets of the second-tier banks are important, and are shown in Table 4 (Spisok bankov Kazahstana, 2016).

STB grouping has been done according to the scale the share of assets in total assets, as a percentage of the abovementioned banks. Thus, the ratio of the groups is as follows:

- 1 group 22-6%;
- 2 group 5-3%;
- 3 group 2-1%;
- 4 group 0,9-0%.

**Table 3.** Analysis of the state of the banking system in Kazakhstan

Indicators	Years										Deviation in 2006–2015	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	+,-	%
The number of banks with terminated license for processing bank transactions	14	33	54	31	5	4	18	8	-	3	-11	-4,6

Note: compiled based on the source Nacional'nyj Bank Respubliki Kazahstan (2016).

**Table 4.** Economic assessment of Kazakhstan bank ranking in the context of asset on January 1, 2016

Top	Bank	Assets on January 1, 2016, thous. KZT	Asset ratio, %	Top bank ranking
<b>1 group</b>				
1	Qazkom	5 051 837 273	21.26	1
2	Halyk Bank	4 053 885 722	17.06	2
3	Tsesnabank	1 939 194 777	8.16	3
4	BS JSC Sberbank	1 596 599 552	6.72	4
5	Bank Centercredit	1 440 498 528	6.06	5
<b>2 group</b>				
6	ATF Bank	1 199 783 040	5.05	7
7	ForteBank	1 065 707 128	4.49	8
8	KaspiBank	1 243 749 867	5.24	6
9	Bank RBK	876 780 554	3.69	10
10	Eurasian Bank	1 038 700 183	4.37	9
<b>3 group</b>				
11	Citibank Kazakhstan	439 292 259	1.85	12
12	House Construction Saving Bank of Kazakhstan	474 077 835	1.99	11
13	DeltaBank	398 030 513	1.67	13
14	QazaqBanki	328 573 856	1.38	15
15	Nurbank	333 368 743	1.4	14
16	BS "Alfa-Bank"	310 498 635	1.3	17
17	Kazinvestbank	171 509 689	0.72	20
18	AltynBank	324 318 097	1.37	16
19	Bank of Astana	224 052 666	0.94	19
20	AsiaCreditBank	239 155 266	1.0	18
<b>4 group</b>				
21	BS "Bank of China in Kazakhstan"	136 794 991	0.57	22
22	Subsidiary JSC "Bank VTB" (Kazakhstan)	164 489 333	0.69	21
23	BS JSC "Bank Home Credit"	117 433 362	0.49	22
24	Bank Kassa Nova	80 495 845	0.34	25
25	CapitalBankKazakhstan	108 631 583	0.46	23
26	TengriBank	54 917 710	0.23	28
27	JSC Eximbank Kazakhstan	70 792 084	0.3	26
28	TB BS "Bank of China in Kazakhstan" Almaty	106 689 420	0.45	24
29	BS "KZI Bank"	57 706 177	0.24	27
30	JSC "Bank Expo Credit"	44 021 943	0.19	29
31	JSC "Al-Hilal Islamic Bank"	26 737 343	0.11	30
32	JSC "Shinhan Bank of Kazakhstan"	18 597 192	0.08	32
33	Zaman Bank	15 000 078	0.06	33
34	"National Bank of Pakistan" in Kazakhstan. JSC	6 087 678	0.025	34
	Total STB in Kazakhstan	23 784 008 922	100	31

Note: compiled based on the source Rejting Bankov (2016).



Therefore, the first group includes the top 5 banks: Qazkom, Halyk Savings Bank of Kazakhstan, Tsesnabank, BS JSC “Sberbank of Russia”, Bank Center Credit.

The second group included 5 banks. They are ATF Bank, Forte Bank, Kaspi Bank, Bank RBK, Eurasian Bank.

The third group consisted of 10 second-tier banks, such as Citibank Kazakhstan, Housing Construction Savings Bank of Kazakhstan, Delta Bank, Qazaq Banki, Nurbank, SB “Alfa-Bank”, Kazinvestbank, Altyn Bank, Bank of Astana, Asia Credit Bank.

Considering the share of the loan portfolio of banks, 5 major banks of 34 can be identified, which are shown in Table 3.

The last fourth group is represented by 14 banks. They are SB “Bank of China in Kazakhstan”, SO JSC VTB Bank (Kazakhstan), SB JSC “Bank Home Credit”, Bank Kassa Nova, Capital Bank Kazakhstan, TengriBank, Eximbank Kazakhstan, TP China in Almaty Bank, SB “KZI Bank”, JSC “Bank ExpoCredit”, Islamic Bank of “Al-Hilal”, Shinhan Bank Kazakhstan, Zaman-Bank, SB “National Bank of Pakistan”.

To solve the problem of low quality assets in 2012 in the frameworks of the law “On introduction of amendments and additions to some legislative the Republic of Kazakhstan acts on regulatory issues of banking and financial institutions in terms of risk minimization” (Zakon Respubliki Kazahstan, 2011),

JSC “Fund of problem loans” with charter Fund – 70 billion KZT was created, which became the sole shareholder of the National Bank of Kazakhstan.

In 2015, the program of refinancing mortgages and housing loans/mortgage loans was approved, under which the National Bank of Kazakhstan capitalized the authorized capital of the JSC “Fund of problem loans” for 130 bln. KZT aimed at subsequent transfers of funds to the second-tier banks under 2.99% per annum for 20-year period in order to refinance the mortgage loans issued in 2004-2009 (Fond problemnyh kreditov, 2015).

## 2.4. Major banks – the leaders in Kazakhstan

Based on the economic evaluation of the Kazakhstani Bank ranking in the context of the assets on January 1, 2016, five major banks – the leaders in Kazakhstan, have been revealed in this study, which are further represented in Table 5.

Table 5 shows that on January 1, 2016, the top 5 banks by the share of assets amount to 59.26%, while the loan portfolio, respectively, accounts for 63.4% of the volume of the specified indicators of all second-tier banks, i.e., these banks are of the crucial strategic value for the development of the financial sector of Kazakhstan.

During 2015, the volume of investments in fixed assets increased by 3.7%. Investment growth was mainly due to the increase of investments in fixed income capital industry (by 5.6%) and real estate transactions (18.8%).

**Table 5.** Analysis of top 5 banks in terms of assets and loan portfolio

Nº	Bank	Assets, thous. KZT	The share of assets of the market among the top 5 banks, %	Loan portfolio, thous. KZT	The market share of the loan portfolio, %
1	JSCQazkom	5 051 837 273	21,26%	3 972 117 942	25.5
2	JSC Halyk Bank	4 053 885 722	17,06%	2 279 303 125	14.7
3	JSC Tsesnabank	1 939 194 777	8,16%	1 536 112 065	9.9
4	BS JSC Sberbank	1 596 599 552	6,72%	1 093 934 771	7
5	Bank Centercredit	1 440 498 528	6,06%	984 501 676	6.3
	Total	14 082 015 853	59,26%	9 865 969 579	63.4

Note: compiled based on the source Analiticheskaya sluzhba Rejtingovogo Agentstva RFCA (2016).



**Table 6.** Average weighted rate on loans to banks in the context of industrial sectors, %

Nº	Sector/year	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Mining industry	10.2	11	12.2	10	9.1	8.3	7.3	6.7	8.3
2	Processing industry, including	9.9	13.4	13.4	11.9	10.3	9.3	9.4	11.4	16.3
3	Food industry	13.5	14.0	12.8	12.4	10.5	10.4	10.8	10.8	12.5
4	Consumer goods industry	15.4	17.8	13.7	14.0	9.8	12.4	10.8	10.9	10.3
5	Wood industry	15.7	15.2	15.6	13.6	8.7	11.4	10.1	11.0	14.1
6	Chemical industry	14.0	15.3	15.0	12.5	11.0	8.9	9.8	12.4	13.6
7	Metallurgy	7.9	9.8	12.9	10.8	11.8	10.6	10.3	9.1	9.2
8	Machine industry	14.4	15.8	15.2	11.7	8.9	10.4	9.9	11.8	14.2
9	Other industry sectors	14.8	13.7	13.4	13.3	10.2	10.5	10.1	10	12.7

*Note:* compiled based on the source Otchet Nacional'nogo Banka Respubliki Kazakhstan za 2015 god (2016).

The main source of financing of investments in fixed assets – continued to favor companies' own funds, the share of which increased in total investment to 58.1% and the volume of investment in fixed assets, which amounted to 7 trillion KZT in 2015.

The share of participation of the banks in crediting with an investment is very low and amounts to about 5-6% of the total investment in fixed assets.

The volume of loans to the economy, issued by banks in the period from 2005 to 2015 is 75.7 bln. KZT. The share of lending to the real sector decreased from 42.8% in 2005 to 32.1% in 2015.

Essentially, the companies hope, primarily, on their own resources, thus, the share of investment increased in 2015 to 60%. Besides the state is also involved in the investment process of enterprises and annually allocates subsidies of up to 22% of total investments in the country's economy.

Evaluating the structure of credit use from 2005, we can conclude that over 50% of loans are allocated to current capital. The share of loans for the purchase of fixed assets decreased from 6% in 2005, to 3% in 2015. Thus, the asset and technological equipment depreciation is very high.

One of the negative aspects of the activities of banks is explained by the fact that the banking sector is focused on short-term lending, which is insufficient for the purchase of expensive equipment, renovation of fixed assets, as well as to maintain efficient production cycle. In this regard, Kazakhstani enterprises for long-term investments prefer to attract only their own resources, not rely on bank loans.

Another negative side of banking activities is that rather than alleviate the debt burden on loan debtors' interest, on the contrary, they increase the interest rate for loans granted, thereby forcing the lenders to issue loans at a higher interest rate.

## 2.5. The most attractive sectors for the bank loan

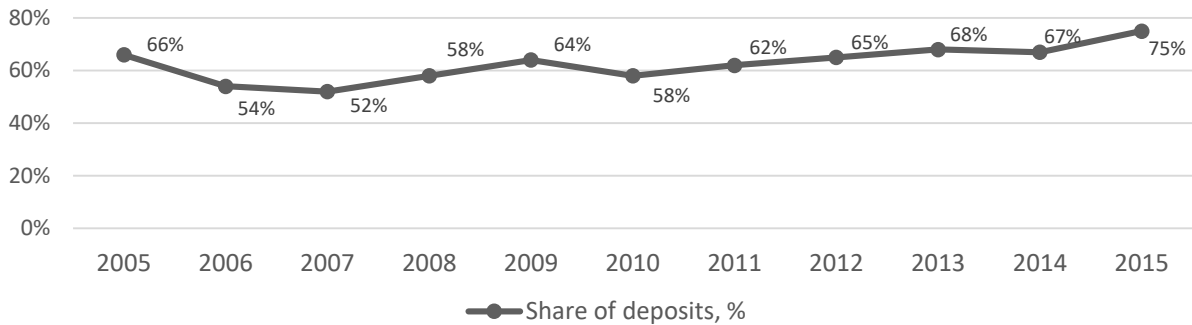
The most attractive sector for the bank loan interest rate is:

- non-production sphere – 16.6%;
- trade – 12.6%;
- agriculture – 13.2%;
- construction – 12.4%;
- transport – 11.5%;
- industry; communication – 11.2%.

Analysis of weighted average interest rates on loans to banks in the context of industrial sectors, as shown in Table 6, confirms that the second-tier banks are not interested in issuing credits to industries. They are observed to be especially high in 2015 in the whole of the manufacturing industry accounted for 16.3% including higher rates for wood industry – 14.1%, machine industry – 14.2%.

Evaluation of qualitative characteristics of the loan portfolio demonstrates that banks generally provide the loans to the non-production sector of the economy.

Despite the fact that banks are aiming to work on the sectors with a rapid turnover of capital, indebtedness under credits increased from 42% in 2005 to 71% in 2015.



Note: compiled based on the source Analiticheskaya sluzhba Rejtingovogo Agentstva RFCA (2016).

**Figure 3.** Analysis of bank deposits

The volume of deposits attracted from organizations as of 2015 reached 6.9 trillion KZT, individuals – 6.8 trillion KZT, where the nominal growth of deposit base is specified due to the re-evaluation of foreign currency, which are shown in Figure 3.

Therefore, the displacement of the bank strategy to a more short-term and high-yield non-production sector resulted mainly in the cost effectiveness and the pure profitability of production of the second-tier banks of Kazakhstan.

### 3. WEAKNESSES AND STRENGTHS OF THE KAZAKHSTAN BANKING SYSTEM

Weaknesses of the Kazakhstan banking system include the following factors:

- low quality of management in the banking system, there is no clear business strategy and development. Moreover, the orientation is implemented at the current time;
- low level of cost effectiveness of large banks;
- a high risk in lending. Lending is provided for consumer loans, which increases the risk of non-solvency of the population and increase in the number of unpaid loans;
- low QMS standards;

- almost all STBs own a low level of assets, which affects the work of these banks;
- low return monitoring of banks;
- low quality of management and professional top managers, employees;
- no effective legal and regulatory framework of the bank activities;
- low level of attracting deposits from legal entities and individuals;
- a high level of corruption and fraud;
- the low level of payment discipline;
- non organized system of information without introducing innovative information technologies.
- ineffective marketing and sales strategy of the bank.

The strengths are as follows:

- good growth prospects;
- growth in GDP per capita;
- government support for banking system;
- high budget and trade balance figures;
- improvement in funding STB of the Republic of Kazakhstan.

## 4. IMPROVEMENTS OF THE KAZAKHSTAN BANKING SECTOR

In order to improve performance in the banking sector, the following is essential:

1. Improvement of the banking supervision system in accordance with international standards.
2. Implementation of activities aimed at development of competition in the banking sector by preventing the actions that lead to the restriction of freedom of commercial activity in the banking sector.
3. The implementation of measures aimed at improving the quality of corporate governance and credit risk management in commercial banks in Kazakhstan through the development of special regulations for the risk management in banks.
4. Improvement of the payment system of the country through active control of the National Bank of the Republic of Kazakhstan.
5. The implementation of appropriate measures to maintain an adequate rate of tenge and the refinancing rate at 6%, which should lead to an increase in the availability of credit to businesses and individuals, and as a consequence to encourage production and apparent demand, as well as a decrease in defaults of borrowers.

As part of the stabilization of the banking sector, the National Bank of Kazakhstan has identified a number of priorities:

- acceleration of recovery processes of bank balances and their “purification” of the sub-standard assets;
- develop a set of measures that will stimulate the credit activity of banks in the post-crisis stage of development;
- transition to the regulation and improvement of the system of risk management in the financial system;

- develop a set of measures that reduce economic imbalances and systemic risk.

Thus, Kazakhstan’s banking sector has been gradually recovering in the current crisis conditions of economic development. However, the unsolved problems that led to decline in the share of bank loans in the Republic of Kazakhstan’s GDP still exist.

Today the banking sector of Kazakhstan represents the five strategic banks, including subsidiaries of Russian “Sberbank”, which account for over 50% of shares in the financial market. Banks are still not effective enough in the policies to reallocate the resources in the economy to meet the demand of economic agents for the loans. Crediting to sectors of the economy has not been enough balanced: low quality of loan portfolio, largely non-productive sphere is credited.

In recent years, Kazakhstani banks have been increasingly oriented on providing short-term high-yield and high-risk consumer loans, which can lead to high credit risks, in case of the deterioration of the economic situation.

In contrast, the measures approved by National Bank of the Republic of Kazakhstan, aim at reducing non-performing loans, the presence of which indicates a low level of risk management in banks, low professionalism of top managers. Loans are allocated inefficiently: mainly in the non-production sector, trade, construction of various shopping and entertainment centers, where the final product is not created and does not increase the real GDP.

It is crucial to comprehensively solve the problems of the development of Kazakhstan’s banking sector to ensure its competitive and sustainable functioning of the real sector of the country’s economy. It is advisable to apply innovative banking technologies, to improve the quality of assets to monitor the banking risks.

Such directions as the “reset” of the financial sector in Kazakhstan and the restoration of lending activity in the banking sector were defined in the President’s Address. The head of the National Bank of the Republic of Kazakhstan (NBRK) Akishev (2017) noted that in the context of a re-

duction in funding and an increase in its cost of reducing consumer demand and a shortage of cost-effective projects, banking business has become less effective in lending to the real sector of the economy from banks. Improving the banking sector for many participants can become a painful process, as it will require additional investments from shareholders or consolidation with other players. Another problem of the recent

years has been the high dependence of banks on state money. About 7.7 trillion tenge are liabilities of banks to various state companies and institutions – this is 35% of all liabilities of banks. In fact, this is a hidden form of government support for banks. The program of support of large banks will be offered at the expense of state resources on the principles of joint participation of shareholders in the capitalization of banks.

## CONCLUSION

Therefore, the existing problems in the banking sector of Kazakhstan characterize the imperfection of the banking regulation and supervision system, require the National Bank of the Republic of Kazakhstan to implement measures for the financial rehabilitation of the country's banking sector. At present, increasing the capital of banks is one of the priority areas for increasing the competitiveness of the banking sector. In crisis conditions of economic development, the risks of worsening of the financial condition of individual banks may increase, which necessitates a further process of consolidation of the banking sector in Kazakhstan. Challenges and external shocks for banking cause the construction of a modern business model of banking business, corresponding to the realities of modern times with the use of advanced digital technologies, with the transition of traditional banking to a new level of the development.

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